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UniCredit S.p.A (UNCRY) Q4 2024 Earnings Call Transcript

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Q4: 2025-02-11 Earnings Summary

Insights

EPS of $0.53 misses by $0.27 | Revenue of $6.22B (-3.12% Y/Y) beats by $46.07M

UniCredit S.p.A (OTCPK:UNCRY) Q4 2024 Results Conference Call February 11, 2025 4:30 AM ET

Company Participants

Magda Palczynska – Head of Investor Relations
Andrea Orcel - Chief Executive Officer
Stefano Porro - Chief Financial Officer

Conference Call Participants

Britta Schmidt - Autonomous Research
Andrea Filtri - Mediobanca
Antonio Reale - Bank of America
Delphine Lee - JP Morgan
Ignacio Ulargui - BNP Paribas Exane
Giovanni Razzoli - Deutsche Bank
Hugo Cruz - KBW
Ignacio Cerezo - UBS
Chris Hallam - Goldman Sachs

Magda Palczynska

Good morning, and welcome to UniCredit's Fourth Quarter and Full Year 2024 Results Conference Call. Andrea Orcel, our CEO, will take you through the presentation. This will be followed by a Q&A session with Andrea and Stefano Porro, our CFO. [Operator Instructions]

With that, I hand over to Andrea.

Andrea Orcel

Good morning. It is my privilege to present the successful completion of the first phase of UniCredit Unlocked crowned by our fourth quarter and full year 2024 results. We're now moving to the second phase of UniCredit Unlocked, Acceleration. This will include our expectations and levers for the next 3 years, the guidance outlook and inorganic activity.

Our performance would not be possible without the continued support of all our stakeholders. I would like to take this opportunity to thank our clients for their trust, our shareholders for their belief and unwavering support and, above all, the people of UniCredit whose passion, dedication and hard work make UniCredit what it is.

I will start directly with Slide 5, as I speak to all points in Slide 3 and 4 later. UniCredit's transformation from '21 to '24 has been nothing short of exceptional, particularly as it has also consistently delivered outstanding financial results quarter after quarter, while setting a new benchmark for banking.

We have unified and refocused the entire organization around a single vision, strategy and culture. We have simplified and streamlined our organization, processes and way of working. We have restored trust and empowerment among our 13 banks and our employees, all coming together as one group.

By leveraging our scale, we have put to common denominator our product factories, building an ecosystem of partners. We have put our technology and data under one cohesive framework, driving efficiencies and innovation.

These action have been taken putting our client always at the center and have not only transformed UniCredit into a stronger, more competitive institution with leading financial KPIs, but also set us on a trajectory of continued success in the future.

While the emphasis shall now shift, our transformation is far from over. We have surpassed all our targets. While macro tailwinds have favored our results in some areas, they have also masked the extent of our achievement.

Our 14% net revenue growth was achieved with discipline. NII RoAC increased from 4% to 19% and is now best in the industry. Fees grew 6%, ahead of our peers to 33% of total revenues.

The impact of our investment in our factories has just started to show. Despite inflationary pressures, particularly significant in our perimeter, we reduced cost by around €1.7 billion, while reinvesting circa €1.4 billion to strengthen our group.

Our cost-to-income ratio declined further to 37.9%, despite our complexity, beating peers by a significant margin. Capital efficiency move from laggard to leader, supporting €26 billion of distribution, 65% more than the original €16 billion target, while building an excess capital chest of €6.5 billion, taking €3.6 billion of integration cost in the period and €700 million of additional overlays. This excess capital shall now either boost our '25, '27 distribution or provide us with strategic flexibility.

Our net profit is more than double what we planned in 2021, no matter which definition you take. Our return on tangible equity is also more than double the UniCredit Unlock target, despite the building of our excess capital. This performance balances, excelling in the short term and preparing for the future. It is a testament to the dependability of UniCredit and its people.

UniCredit now consistently delivers quality profitable growth. We have generated positive jaws across all our key metrics. Our revenues have grown while focusing on profitability, rather than volume in our chosen client segments. We not only reduced absolute cost in the face of inflation, but did so while investing for our future and increasing our top line.

UniCredit remains a leader in the industry across all KPIs. We begin the next phase of our journey from a position of significant strength. We delivered total shareholder return of 513%, 4x our European peers. We delivered the best share price performance despite derating. We delivered the most generous distribution, whilst building our excess capital. We are strong and able to offset the normalization of macro.

We intend to grow our net profit at a high-teens return on tangible equity, delivering the highest sustainable distribution of the peer group. The trajectory ahead for our shareholders remains bright.

Let's now focus on our Q4 and full year results in detail. Given the different definition of net profit used by our competitor, let me share ours under the different views. Our stated net profit exceeded €9.7 billion for the full year. Our net profit, excluding DTAs, is now well ahead of the €9 billion we guided to, reaching €9.3 billion, up 8% year-on-year. Both are after absorbing €1.3 billion in integration costs and legal provision for Russia, without which our beat would have been much greater and with which we further derisk 2025 and beyond.

Our underlying net profit without integration cost and the extra legal provision for Russia reached €10.3 billion, a very strong base. These outstanding bottom line results have been achieved, thanks to strong performance across every single line of our P&L and balance sheet.

Net revenue increased 4% to €24.2 billion in the year, remaining flat in the quarter and up 1.3% if adjusted for the Commerzbank hedge one-off. This is a result of strong profitable NII and fees and low and stable LLPs. Trading profit for the full year would have increased, excluding the one-off impact of the Commerzbank hedge.

NII grew on a quarterly and yearly basis, despite the recent decline in rates due to excellent management of the pass-through and our replicating portfolio and investment portfolio results.

In the fourth quarter, we also benefited from a €3 million -- €30 million contribution from the consolidation of Alpha Bank Romania and a €50 million one-off in Italy. Our NII remains highly profitable with a RoAC of circa 19%, thanks to our continued focus on our target client segments and product and profitability over volume.

Our asset quality remained strong and stable with a gross NPE ratio of 2.6% and a net NPE ratio of 1.4%. Our gross NPE stock is half what it was 4 years ago. Our cost of risk remains structurally low at 15 basis points for the year and 34 basis points for the quarter, including an increase in our specific provision with overlays untouched at €1.7 billion.

We're still benefiting from write-backs confirming quality origination and conservative provisioning. The overall cost of risk is flat year-on-year with a default rate of 1.3% and only 1%, flat versus fourth quarter '23, excluding a single NIM one-off in the fourth quarter.

Fee growth has been strong across all categories, accelerating this year and even more so in the quarter, up 9% year-over-year. Our fee to revenue ratio stands at a top-tier 33%, notwithstanding strong quality NII growth, highlighting the quality and diversification of our fee base.

Overall fee performance has been driven by continued strong momentum in investment and P&C insurance with growth at 17%, driven by increased client appetite, a broader product offering and our ongoing shift towards affluent and private clients.

Strong fee growth will remain central to our future success, fueling capital-light revenues and delivering exceptional results to clients and shareholders. This will allow us to extract positive differential value from any partnership or acquisition that we may make.

Over the last 3 years, we have consistently reduced our absolute cost base offsetting inflation while investing in the business. In '24, we further reduced our cost by 0.6%, driven by non-HR down 1.3% and HR cost down 0.1%, despite increasing the remuneration of our people.

This quarter, costs were impacted by bonus pool, 2 months of Alpha Romania consolidations and accelerated digital investments. Without this intentional investment, costs would be flat in the quarter and lower still in the year.

Our cost/income ratio improved to 37.9%, consistently leading our peer group. From disciplined cost management, combined with target streamlining of our organization, reducing unnecessary overhead and investing efficiency. Our operational excellence has been a key factor in our success, and we intend to maintain it and defend it.

Our best-in-class organic capital generation of €12.6 billion for the year allowed us to absorb headwinds, increased distribution to €9 billion and maintain a stable CET1 ratio of 15.9%. Active portfolio management reduced RWAs by almost €13 billion.

We now present our region in a way that we believe better represent very individual dynamic. We will separate Italy from Germany, from Austria and pull together Central and Eastern Europe. So let's start with Italy. Our franchise in Italy is market-leading in terms of profitability, efficiency and capital generation by a wide margin. It is UniCredit's quality earnings powerhouse, and its results speak for themselves.

Gross revenues grew 4% to €11.4 billion, driven by both NII, plus 5% and very strong fees, plus 7%. We continue to focus on profitability rather than volume. NII RoAC exceeded 23%, significantly above our peers. All 3 categories grew, with investment and insurance delivering a standout performance of plus 16% and fees to revenue reaching almost 40%.

We're leading in terms of our investment products growth in Italy. Operational efficiency improved further. Costs were down despite growth and investment in technology and our people, allowing us to reach a cost/income ratio of 34.5%, unparalleled in the country.

Capital efficiency improved yet again with net revenues over RWAs of 10.5%. Net profit rose 10% to €4.4 billion. RoAC reached 31%, the best in Italy. As a result, organic capital generation reached €5.5 billion, again, well in excess of our net profit, underscoring the quality and profitability of our growth.

This outstanding performance provides the firepower to constantly deliver innovative solution and support for our client. This year alone, we facilitate almost €11 billion in financing to support Italian SMEs, none of which would be possible without our people.

We welcomed over 1,000 new team members this year and launched professional retraining and upskilling initiatives, delivering 1.3 million hours through UniCredit University.

Germany. Our German bank is the most profitable and efficient in the country with the best balance between gross and profitable NII and quality fees. One of our two key anchors for the group, it delivered its highest profit ever. This is the financial result of our successful transformation.

Gross revenue grew 1% to €5.5 billion, driven by fees, up 3% to €1.6 billion, accelerating plus 8% in the quarter. Fees compensated NII, down 3.5% in the quarter, while maintaining the leading NII RoAC in the country, above 18%.

Operational efficiency improved yet again. Costs were down 8%, despite growth and investment in technology and people. Cost income declined to below 41%. Capital efficiency improved yet again with net revenues over RWAs of 7.5%. Net profit rose 12% to €1.9 billion.

RoAC reached 20%. As a result, organic capital generation reached €2.8 billion, well in excess of net profit. Our disciplined approach to profitable growth stands out. We have restrained ourselves from chasing some competitors who have recently significantly reduced pricing to inflate revenue, which are well below the cost of equity and will impact the profitability over time.

This success is thanks to the caliber of people who make our business. In the last year, we hired more than 300 new colleagues and announced the creation of over 140 new jobs as part of our integration of a custody business.

We have been awarded Top Employee Germany for the 15th time in a row. Our team is united behind a common vision and ambition and in a market-leading position from which now accelerate.

Austria. Our bank in Austria is the most profitable and efficient bank in the country. The second anchor to our group, it continues its transformation, showing improvements on every line and delivering its best net profit ever.

Gross revenues grew 3% to €2.7 billion, driven by fees, up 8% due to strong investment and client hedging fees and resilient NII, plus 2%. We are maintaining discipline as competitor chase volumes, reflected in our NII RoAC of 15%, well ahead of all peers.

Operational efficiency improved yet again. Costs were down more than 1%, despite growth and investment in technology and in people. Our cost-to-income ratio declined below 38%.

Capital efficiency improved yet again with net revenues over RWAs of 7%. Net profit rose 14% to €1.3 billion. RoAC reached 24%. As a result, organic capital generation reached €1.5 billion, again, in excess of our net profit.

We supported the growth of our SMEs through the provision of €3.4 billion in new lending and rolled out a digital credit decision engine to provide SMEs faster access to it. We kept a strong focus on supporting our customers, employees and communities, launching a special tranche of mortgage loans with favorable conditions for young families.

And under the umbrella of UniCredit University Austria, we continued expanding our development and upskilling program, while our new well-being framework reached more than 1,000 people.

Central and Eastern Europe. Our Central and Eastern Europe franchise also leads in profitability and efficiency. It is the growth engine of our group. It demonstrated excellent performance as our local countries lead in their own right in their individual markets, whilst leveraging benefits from our group-wide factories, network and platforms.

Gross revenues grew 8% to €4.5 billion driven by fees, plus 13% and resilient NII, plus 5% with an NII RoAC of 26%. We're maintaining discipline without sacrificing market share as competitors chase volumes.

Operational efficiency improved yet again with cost income at 33%, whilst capital efficiency remained high with net revenue over RWAs at 8.7%. Net profit rose 3% to €2.2 billion. RoAC reached 30%.

Organic capital generation reached €1.6 billion. I would like to underscore that Central and Eastern Europe, underlying growth is twice that of the core European Union with low FX risk. We have unchallenged leadership in corporate and a significantly growing retail contribution, which should further be enhanced by our reentry in Poland, leveraging Vodeno-Aion.

4 banks contribute 70% of our region's revenue. In Bulgaria and Croatia, we have a leadership position in both retail and corporates. In Romania, we are top tier. And in Romania and Czech and Slovakia, we lead in corporate.

We are complementing and accelerated by our other 5 banks, which, while smaller, deliver outstanding performance. This year alone, we upskilled 900 branch managers, set up bespoke initiative to recognize and nurture talent within our Gen Z cohort.

We continued with our dedicated development to build a solid pipeline of future managers. Russia. We have been working towards an accelerated orderly wind down of Russia from day 1. Always, within both the letter and the spirit of a complex legal, regulatory and sanctioned limitation. We met the target communicated in H1, 1 year early.

Local deposits declined to €900 million, 89% down since first quarter '22. Net local loans declined to €1 billion, 86% down since first quarter '22. Cross-border exposure declined 94% to date and will become practically nil this year. We minimized our loss to only 11% of principal.

Cross-border payment are below $10 billion, 64% down since Q1 '22. We are now almost exclusively in Europe and U.S. dollar. We have reduced the capital impact of a full write-down of Russia from circa 130 basis points on a 14% CET1 in Q1 2022 to now circa 50 basis points, 10 basis points lower than recently on a 16% CET1 today. We are now compliant with this ECB order.

Turning to our product factories. We see strong delivery of our sustainable capital-light fee-based revenue. Client Solutions revenue grew by 9% to €11.3 billion, 2/3 are fees, up 8%. Individual Solutions rose by 14% to €3.3 billion, driven by investments, up 18% and protection up 13%.

We're increasing the use of our market products within our investment offering to create better solutions for our clients. Our onemarket funds reached €14.5 billion, and our own Managed Funds gross to total sales reached 31%, up from 14% in 2023.

Corporate Solutions revenue rose by 9% to €5.4 billion, driven by client risk management up 17% and advisory and financing, up 6%. Payment Solutions rose 4% to €2.3 billion, driven by payment, up 7%. We are entering the next phase on UniCredit Unlocked, in which we focus on accelerating our top line, driven profitable growth. Our goal is to solidify our position as the leading Pan-European bank and further widen the gap versus competitors.

The industry faces headwinds, such as net interest income pressure, cost inflation, normalization of risk, Russia and ongoing digital evolution. We are confident in our ability to complete our transformation while building on our unique structural advantages through targeted Alpha initiatives.

This will allow us to not only overcome the impact of headwinds on our record net profit, but also grow it to over €10 billion, excluding DTAs, maintaining return on tangible in the high teens and our organic capital generation broadly in line with net profit.

Structural advantages. Our road map is clear, we are a transformed bank, now harnessing its structural advantages, which are an attractive geographic footprint, combined with a quality client and product mix to deliver superior profitable growth and distribution over time.

We operate as a federation of 13 individually empowered banks, each executing independently, yet benefiting from being part of one group. This profitable and diversified footprint, Italy's quality earnings anchored by Germany and Austria resilience and powered by our Central and Eastern European growth engine strikes the ideal balance between highly capital generative, stable markets and dynamically expanding one.

We serve 15 million clients, with 60% of our revenues from high-value segments, such as SME, private and affluent, and we intend to increase that weight. By leveraging our global product offering, centralized procurement and technology and data infrastructure at scale will further enhance our competitive edge.

This is how we drive our fee to revenue ratio towards 40%, outpacing market growth through internalization, superior fee and profitable lending products. No other peer is in such a favorable position.

Alpha initiatives. To build on our structural strengths, our targeted Alpha initiatives are split into commercial and operational. Together, they support our ambition financial goals, ensuring we continue to build on our momentum and unlock new avenues of value creation.

Turning to our geography. All regions will maintain strong performance throughout the plan. Italy, our powerhouse for quality earnings, will see its share of group net profit shift from 45% to around 40%. Having benefited most from rising rates, Italy will feel the impact of rate reversal more acutely, yet the quality of its earnings will continue to improve.

Fees as a share of revenue will rise from circa 40% to 48%. NII RoAC will normalize at 17%, well ahead of cost of equity. The overall country RoAC will normalize at 25%.

Germany and Austria, both high-rated economies, serve as resilient anchors for our group. They have benefited much less from the positive rates impact, hence, are now much more resilient on the way down. Combined with the continued improvements in their operational and capital efficiency and their readiness to now again gain profitable market share, Germany and Austria will bring their net profit contribution to 35% and RoAC to 22%.

Finally, Central and Eastern Europe. Our proven engine of profitable growth will increase its contribution to about 20% -- 25% of net profit, despite a normalization of provision. Their growth should then accelerate from there. The region's operational and capital excellence will persist. Their cost/income ratio will further reduce to 31%, with RoAC reaching 30% and strong top line growth.

This attractive diversified geographic mix will allow UniCredit to deliver superior profitable growth and capital generation, supporting outsized distribution. Building on the structural advantages, we will strategically increase allocated capital and investment across all regions. We will, however, prioritize those with the highest profitability and growth potential, with Central and Eastern Europe receiving the most but all regions growing.

Our clients remain at the heart of our strategy. While we strive to add value to all, our growth initiative focus on targeting the most attractive segment with strong capital-light potential, we're decisively shifting our focus towards SMEs and private and affluent individuals, which currently account for 60% of our revenues and 75% of our fee growth going forward.

We have built market-leading product factories that enable us to better serve our clients' diverse financial needs, a key competitive advantage. The impact that these factories are having on each one of our 13 franchise and now also on that of our partner in Greece demonstrate the significant value we can unlock not only internally, but in any acquisition.

Looking ahead, we will continue to invest in these factories and improve their connection to the end client, adding an additional €1.4 billion in fee growth by the end of our plan. Our ambition is to offer a truly integrated experience that blends digital innovation with personalized human interaction across both retail and corporate. This is done through the continued enhancement of our distribution model and channels, coupled with a team of motivated professional providing prompt, high-quality advice rooted in local expertise.

Meanwhile, our digital channels are secure, user-friendly and increasingly capable of delivering an exceptional customer experience. Through our corporate portals, client receive personalized solution in the areas of transactional payments, trade finance, factoring, client risk management, regardless of their location. Our mobile channels provide on-the-go services tailored for digital-first lifestyles.

By seamlessly integrating these channels, we can serve clients when, where and how they prefer 24/7, delivering bespoke outstanding survey and support at all times. Bringing it all together, by leveraging our attractive geographies, our factories and our channels, we will be able to become the go-to bank for our clients. While we have achieved strong NPS gains, our true priority lies in providing a distinctive experience that sets us completely at par from our peer group.

We aspire to become the benchmark for quality when clients think about financial services. Our linchpin. Our people are the linchpin between our commercial and operating machine. They are the most valuable asset and what ultimately makes our ambition possible. We remain committed to investing in them. We believe that by empowering them, developing them, offering them clear career opportunities, they will achieve professional fulfillment.

While not yet there, we are committed to continue on this path. We reward talent transparently. We have increased nonexecutive bonuses by 30% over the last 2 years, higher than those of executive. We offer the highest VAP in Italy, for example.

In parallel, we aim to foster an inclusive, engaging culture by promoting employee-led initiatives, most of the 2,000 simplification initiatives we have rolled out came bottom up from our people and not top down. Our gender pay gap was 4% when we started the plan. We practically closed it today.

Our ultimate goal is to create an environment in which our employees feel connected, valued and empowered because they are the driving force behind our continued success. Let's move to the Operating Machine, an organization and processes. Our operating machine has undergone a major overhaul to better support our business and create further value for our clients. We streamlined organizational structure, flattened the hierarchies and focused resources on high-impact areas, enabling our teams to act more swiftly.

By eliminating inefficiencies, our cost base remained flat, whilst funding investment. We're increasingly leveraging technology and AI to automate and reduce complexity, improving our ways of working and redirecting savings towards business growth. And the results speak for themselves.

Time to approval for a consumer loan in Italy dropped from over 24 hours to just 25 minutes, with more improvement on the way, and you will see them this year. We will continue to identify and remove inefficiency, accelerate automation and use of data, whilst treating every process, workflows and organizational structure as a blank slate for continuous improvement.

Our digital strategy revolves around 2 core imperative. First, uncompromised reliability, security and compliance fully aligned with local and ECB regulation. Two, outcome-driven technology investment with every euro spent demonstrating that it can deliver a clear return and meet specific business organizational needs.

Our ultimate ambition is to develop a digital foundation that not only meets but surpasses best-in-class peers and is able to compete with fintechs. Our IT spend is in line with or above our peers. That said, the efficiency of our spend has significantly improved, and we believe trends towards market-leading, allowing us to achieve more with less.

With respect to technology and data, investing in the right initiative and with the lowest unit cost is far more important than the headline number of what one spends. Our security measures have become ever more effective, reflected in our reduction of incidents by 67% over 3 years.

We have consolidated our data centers and reskilled our digital workforce, improving our tech to non-tech ratio by 18 percentage points. We maintain proactive oversight of regulatory requirement bolstered by a robust digital operational resilience strategy.

We are now in a position to accelerate, leveraging technology, data and AI to elevate our performance to the next level. By continually experimenting to meet evolving needs, we're driving innovation and expanding our offering across multiple integrated platform and channel. You will increasingly see the outcome of that.

Our ambition is to build our capacity to transform, evolving with a changing environment and the needs of our clients and ensuring we continue to provide outstanding products and services. To do so, we have and will continue to invest.

We are planning to add €2.5 billion of IT investment over the plan, delivering IT projects at a lower unit cost and faster time to market, as a result of the disciplined focus on efficiency within our IT and AI spend.

Vodeno-Aion. UniCredit's latest acquisition, Vodeno-Aion, is a proprietary technology and fintech solution that aligns perfectly with our acceleration. It combines all the aspects of our Alpha initiatives. Our initial pilots consist of reentering the Polish market, expanding in select Western and European countries and offering embedded finance solution.

Thanks to Vodeno-Aion's high flexibility, extremely low cost to serve and quick time to market, we have the ambition to add 2.5 million clients and build the business with a meaningful impact on group net profit, a RoAC above 25% and a cost income ratio of 34% within 3 years.

We plan to progressively invest up to €200 million on an iterative basis with a payback of under 2 years. Our guidance on cost already includes the maximum investment that we expect to make.

In summary, our Alpha initiatives and our investment in Vodeno-Aion are at the base of our organic -- of our exciting organic growth story, a story that, together with the finalization of our transformation will allow us to absorb expected future headwinds in full and significantly grow without diluting profitability in our distributions.

Similarly to Phase 1 of UniCredit Unlocked, we are again setting ambitious targets for Phase 2. Our ambition is to match 2024 record net profit in 2025, absorbing all headwinds and grow from there to circa €10 billion, excluding DTAs by 2027.

We're determined to do so, maintaining a return on tangible equity in excess of 17% and an average '25, '27 organic capital generation broadly in line with our net profit. Together with the return of our excess capital, we aim to distribute more than in '24 in each of the next 3 years. 50% of net profit will be in cash.

This would result in 6 years of improving performance and growth at an increasing margin over our cost of equity, coupled with best-in-class distribution. This should lead to a significant re-rating of our stock. We're excited about the challenge and determined to meet it.

While we are realistic with respect to the challenges from a macro environment that will normalize, we believe that we are the best place to deliver the differential value and growth necessary to offset it and grow. We have built unique line of defense, including €1.7 billion of overlays to insulate us from the cost of risk cycle.

We have front-loaded nonoperating items and extraordinary charges equal to €1.3 billion in 2024 alone, absorbing these within our beat of net profit and distribution. These should trend to 0 over the plan. Together with the strengths of our transformed group and our Alpha initiatives in flight, these lines of defense will derisk the achievement of our net profit ambition.

Finally, we will have €6.5 billion excess capital to return to our shareholders by '27, which will further derisk our distribution. 2025 is the year of interest rate normalization, cost of risk trending up, inflationary pressure on cost and for us, further Russia compression. We expect NII to decline over mid-single digits, starting from a high base. This includes some loan growth for the group that is driven by Central and Eastern Europe.

Our cost of risk should remain stable at around 15 basis points, including partial overlay usage. Fees and net insurance result should grow by more than 5%, as past investment increasingly deliver. As a reminder, in the second quarter, we expect to start reporting the insurance line as a separate line in our P&L.

Trading high in '24 should reduce by a couple of hundred million, mainly due to the negative effect of lower rates on the funding of the trading book. The other revenue line should reduce by a couple of hundred million, as '24 benefited from some one-off and the contribution from insurance is reflected elsewhere.

This leads to net revenue over €23 billion. Cost on the same perimeter would be slightly down. On the expanded perimeter, they will be around €9.6 billion with cost/income targeted at around 40%. Nonoperating and extraordinary item will significantly reduce, providing a large buffer to absorb any operating profit shortfall. This is protection of our results.

Both stated net profit, including DTAs and net profit, excluding DTAs, are expected to be broadly in line with 2024. RWAs will increase to around €300 billion due to the impact of Basel IV models, changes and strategic investment, partly offset by further portfolio action. Basel IV impact will be around 80 basis points for the first quarter and 60 basis points for the full year, mostly from the standardization of operational risk models.

Distributions are expected to be greater than in '24. We're confident we can continue to deliver strong EPS and DPS growth. Phase 2 of UniCredit Unlocked sees us shifting our focus on top line profitable growth while completing our transformation, aiming to maintain our leadership in operating and capital excellence, while investing in digital data and our people.

We aim to achieve €10 billion of net profit, excluding DTA, by '27. Stated net profit and net profit should converge as DTAs should disappear. Hence, you should compare the €10 billion ambition with the €9.3 billion of today.

We intend to distribute in each of the next 3 years more than '24, with 50% of net profit in cash. This is supported by a 17% return on tangible and average organic capital generation broadly in line with net profit and the return of our excess capital.

We continue to target strong EPS and DPS growth. Our target CET1 currently remain between 12.5% and 13%, notwithstanding the impact of Basel IV and model changes, particularly on operational risk, not substantially changing our risk.

We have just gone through Phase 2 of UniCredit Unlocked, which remains our main focus and a compelling base case that we believe will deliver positively differentiated performance and distribution versus our peers. Any M&A activity shall be executed solely if it further enhances our base case, solely if it further enhances our base case.

It must be consistent with our strategy and meet our strict financial criteria, delivering returns that compare favorably to buying back our own shares. This is a high bar. We're not afraid to walk away, if not met and demonstrated this much so far.

BPM. At the offer price, despite its valuation at a significant price earning and price to distribution premium to ours has enough potential to add value to meet our criteria.

Commerzbank, still an investment, fully hedged on the downside. Our ability to add massive value to Commerzbank is demonstrated by HVB's transformation in only 3 years, but we would only make an offer at the right terms and conditions.

There is no risk of overlap between these 2 potential deals as they would be sequential and would be led by separate local management teams in separate legal entities overseen by separate regulators.

Just for transparency, we are about to announce that our total holding in Generali, including position that we hold on behalf of our client, has crossed the 5% threshold. This does not change our position on the stake, which remains financial and does not imply any interest to acquire the company of the like.

A UniCredit-BPM combination would build a stronger #2 in Italy. Network and client franchise are complementary and would be highly protected. The combined client base of €12 million would be further tilted towards UniCredit's targeted segments, affluent, private and especially SMEs in which we do not expect any concentration issue, instead seeing significant growth potential.

The combination allows BPM to access scale, benefiting from UniCredit's greater balance sheet, factories, superior investment firepower, particularly in the areas of technology, data and AI and the network. BPM clients would all benefit from a refurbished branch network and an improved branch network, integrated physical and digital channels, premium product factories, including consumer finance, asset management and insurance, superior capital and balance sheet strengths, meaning, improved lending capacity, access to UniCredit's Pan-European network.

BPM's people would be offered better career development, opportunities and reward. Any cost efficiency will be made with limited impact on the network, as the efficiency will be focused on non-business overhead, back end of the bank and external providers.

This approach was effectively delivered at UniCredit and in full cooperation with trade unions. Italy will benefit from the bank's enhanced ability to support local community, institutions and family. We offer a price that incorporated a 15% premium to BPM's undisturbed share price, the level prior to the announcement of the offer on Anima where 100% acquisition is not a forgone conclusion and further M&A speculation linked to a potential combination, one which is now off the table.

We are offering all BPM's stakeholder an opportunity for strong certain and rewarding future. There is a clear performance gap between the 2 banks today. UniCredit Italy is the most profitable and efficient bank in the country by a wide margin. In terms of gross revenue growth, we outperformed BPM by 10 percentage points between '21 and '24 comparable 9 months period. In terms of capital efficiency, our net revenue to RWA is 2 percentage points higher than BPM. In terms of operating efficiency, our cost/income ratio is 13 percentage points lower.

Our RoAC is 14 percentage points higher. UniCredit trades at a significant discount to BPM on 2026 consensus price to earnings and even more so on price to distribution. Given the strengths of our organization and our confidence in our preparedness to face the future, we believe it should be otherwise.

Commerzbank. While today Commerzbank is just an investment and there is no offer on the table, an in-market combination with HVB would create the #2 private bank in the country with minimal overlap in key regions and clients. The combined entity would be larger and more stable operating under the German law, protected by German deposit insurance and run day-to-day with decisions made in Germany for Germany.

The 2 banks would almost equally contribute to reaching a low teens market share in the Mittelstand. All its clients could benefit from access to UniCredit's higher quality product and services as well as its 13 markets in Europe, where we hold leading presences, superior capital positioning and balance sheet strengths and lower cost of funding, the impact of higher better targeted investment capacity, particularly in technology, data and network.

Poland would benefit from being fully empowered, but also capable to leverage the #1 CEE franchise, a much stronger bank in Germany and leading franchises in Italy and Austria. It too would be able to access our product factories and much needed investment in its technology.

Commerzbank's people will have better opportunity as part of a wider group. UniCredit will continue to engage constructively with employee representatives and efficiencies will have a limited impact on the network.

This deal would be a circa €20 billion vote of confidence on Germany, on the German banking system, on the European banking system and on Europe. It is a sign of belief in the potential of our banking industry and ability to compete against foreign and fintech competitors that are gaining significant share.

There is a massive performance gap between the 2 banks today, despite them being the mirror image of each other in Germany. Herein lies both the size and the credibility of a value creation opportunity even before considering any synergy. HVB is #1 for profitability, operational and capital efficiency in Germany. Our capital efficiency, net revenue RWA is 2 percentage points higher than Commerzbank. Our cost efficiency, cost-to-income ratio is 18 percentage points lower.

Our RoAC is 11 percentage points higher. This gap is likely to widen in our opinion. HVB's top line will continue to benefit from our focus on profitability rather than volume and is now ready to grow in a quality way without the headwinds of cleaning up the past. HVB will further leverage best-in-class operational and capital excellence, together with the impact of past investment and future one in technology and data.

Conversely, we believe Commerzbank will both need to do the hard work, temporarily affecting the result of the next 3 years and be credible in its execution, given the midst of the last 2 efficiency plans. Regarding any potential target, we would look to understand. Number one, efficiency has past cost management focused solely on reducing expenses without reinvestment to the detriment of strengthening the organization? Is any catch-up now needed at a particularly more difficult time? Are efficiencies supported by changes in the organization, processes, way of working, model, automation or is the target overstretching the organization? Secondly, investment.

Has the bank adequately invested in its network, people, technology, data? If not, is there a plan to catch up? And how will that be funded? Preparedness, is the bank able to sustain the turn in the macro environment as the sector is exposed to rates and cost of risk normalization and inflationary pressure on cost? How robust is the starting point in terms of NPE coverage, overlays, NII profitability and approach to lending?

On Commerzbank, we're looking for clarity on the following, corporate Center, representing almost half of the bank on which limited information is ever provided. The opaque nature of this structure raises question on transparency, risk, volatility and the true efficiency and profitability of the core business. Technology and data, what is the state of technology and data system, especially obsolescence and level of integration of past acquisition, in particular Dresdner? Are future investments sufficient to maintain an efficient IT, supporting its people and the business.

Strategic plan and execution credibility of a new target realistic, particularly given failure to achieve some of the previous one inefficiency. Or do they rely on overly optimistic assumption and the pressure to counter a potential offer?

Are they overly focused on volume and dropping margin? Are sufficient steps taken to structurally improve efficiency, core banking earnings and reduce volatility? Given the time line we look at today, we will have 3, 4 or even 5 full quarter to observe execution. We look forward to more clarity on all of these points.

In closing, and before I open up for questions, I would like to leave you with our key messages. One, UniCredit delivered 16 consecutive quarter of profitable growth, reaching its best year ever. Two, we are now transformed into Europe's best-performing and rewarding bank given our distributions.

Three, we are entering in the next phase of our winning strategy from a position of strength and intend to widen the gap with our competitors. Four, we have an exciting organic growth and distribution story ahead. As of now, the most generous. Five, M&A will act as a further accelerated and will be executed only within our strict metrics or not at all.

Overall, UniCredit remains a unique investment proposition still accessible at an attractive valuation, as our team in Bulgaria loves to remind me, the best is yet to come. Thank you, and we're now open to questions.

Question-and-Answer Session

Operator

[Operator Instructions] The first question is from Britta Schmidt of Autonomous Research.

Britta Schmidt

With regards to the Commerzbank stake, you say you've got 3 to 5 full quarters of observing how Commerzbank will execute, whatever they are going to announce. But do you have a fixed plan as to what you consider doing after these 5 quarters in terms of divestment or continuing to hold it as a financial investment?

And another question I have is just regarding the RWA guidance to €300 billion in 2025. Can you help us break down the drivers a little bit? We've got the Basel IV impact. But what are the other moving parts, considering that this is above consensus expectations?

Andrea Orcel

Okay. I'll take Commerzbank. So obviously, the reason we have 3 or 4 quarters is because we are sticking by what we said, and we are waiting to be able to engage with a new government before we do anything else on Commerzbank such as launching a bid. If you go through the time line, that takes you through 3, 4, 5 quarters, depending what you assume. I also highlight to everybody that if and when we were to launch a bid, the decision remains firmly with us, and we would launch a bid when we are ready, not in automatic following of whatever we do -- we achieve in terms of negotiation with the government.

So that is why the time line. In terms of the maximum time and what we do next, it will very much depend on the outcome of all of these conversations and discussions. So at the moment, I cannot tell you.

Stefano Porro

So in relation to risk-weighted asset guidance, so let's start from starting point, €277 billion. Q1, we have Basel impact. So the Basel impact is in basis points, 80 basis points in terms of risk-weighted asset number will be between €14 billion and €15 billion.

The Basel impact on the full year, taking consideration the mitigating actions that we will perform during the course of the year, will be around €12 billion. So that's the reason why the full year impact is around 60 basis points of common equity tier 1 ratio. Then we have model changes during the course of 2025 are primarily related to multinational clients and [indiscernible] model locally from an overall amount of around €8 billion during the course of primarily first half of 2025.

Important to take into consideration that we will keep on doing active portfolio management action during the course of the year, In '24, we have done around €13 billion. In '25, we will do more than €7 billion of active portfolio management action, including also securitization.

The business dynamic will be driven by the lending volumes that are expected to be higher than 2024, with a growth rate that will be, let's say, in line with the GDP expectation for 2025.

Operator

The next question is from Andrea Filtri of Mediobanca.

Andrea Filtri

The first is on distribution. You guide for organic distributions over €9 billion each of the next 3 years and net profit ambition going towards €10 billion with distributions close to net profit, while also targeting €6.5 billion excess capital redistribution by 2027 after M&A.

Keeping the math simple, can we therefore dream of over €30 billion cumulative 2025-'27 distribution? And this is on a stand-alone basis, while you have more than one M&A front open. So how should we look at your 2025 targets? How do they change? If you would be successful on the BPM offer? And how should we consolidate the Commerzbank stake in 2025?

Second question is on Russia. You're providing 2025 target and saying you are compliant with ECB order. Can we therefore, consider the credit being forced to sell Russia at €1 as an unlikely event? And finally, if you could just provide the off-balance sheet DTAs remaining.

Andrea Orcel

Okay. All right. So I like to dream, but you have a calculator, you can get to your own numbers. What I can tell you is that we have just committed to pay in excess of €9 billion per year for 3 years. And we confirm that we are returning the entire $6.5 billion of excess capital by '27.

That's also within 3 years. I think it's a little bit more than a dream. Let's put it this way. The second thing is, yes, this is the base case. So as you can say, and I underscore that, because given the excitement that M&A brings everybody tends to deviate. And I remind everybody that everybody tended to deviate the first day I got here. And I think you would agree that not doing M&A got us quite far. This is the same for the next 3 years.

The difference is that we now have 2 possibilities on the table, but there is no way that we will risk derailing what we feel is an exciting plan that combines profitable growth higher than most of our peers and distribution definitely higher than most of our peers to do M&A at the wrong terms or in the wrong way or at the wrong price. So this is the premise, and I want to make it clear.

So that then brings you to your question, well, if you do M&A, what happens to our distribution, et cetera. At the moment, I can only give you what I have for certain. So first, 2024 distribution will be done, meaning they will be done just after the M&A complete, one way or the other, because we have committed to them.

So what remains to be done in terms of dividend will be done slightly before. What remains to be done in terms of share buyback will be done later because we cannot interfere with our share price during the offer period.

Secondly, if we were to do M&A, what is the impact on 2025 distributions in general, okay? So that's the second question. So if we were able to complete BPM, what would happen? My view, nothing would happen, meaning the 2020 -- we have said that we will strive to maintain the dividend per share equal for our shareholders, and that will happen.

Secondly, all the planned distribution to shareholders will continue as if the acquisition has not occurred. What you will have is a dilution of your excess capital at the tail of 2027, right? Because we're using some of it, we would be using some of it to do the transaction.

But by the time you get to 2027, we are -- we would have fully integrated the bank. It would be more than halfway through getting to the level of performance that we are, and it would positively contribute to our distribution on an organic, recurrent, ordinary fashion.

So it's accretive, and that's exactly what we have said we would do. I am not going to speculate on Commerzbank because it's not on the table. And if you think about it, Andrea, if you believe, and I let you decide 3 quarters, 4 quarters, assuming it goes ahead, after that, you should add 9 months.

It takes you very quickly into '27. So I know a lot of people are speculating about that, but most of our plan is going to be done without any impact from that. The second thing that I would say is even if we consolidated the stake in '25 because we get authorization to reach the 30% physical shares, but consolidation will only very mildly affect our CET1 ratio, given that it would remain to be hedged. And therefore, the distribution would not be affected by that in the least, okay?

The other thing, Russia, let me remember what we said. So I cannot speculate on what may happen or not happen. But you do know the way we have managed the situation, finding the right balance between doing what we felt is right, morally correct and defending the interest of our shareholders and incidentally of our people.

We will continue to do so. And therefore, as far as we are concerned, your selling for €1, et cetera. If it's me, unless I'm forced, I will not be selling Russia for €1 or for anything that is not a "fair price." At the moment, I remind you, we have a bank that has less than €1 billion in deposits, less than €1 billion in loans. That is probably a payment reference in corporate, but all within the sanction framework and increasingly under the ECB order, and that focused on euro and U.S. dollar and which is primarily targeted to serving Western clients that still are operating in the country.

The retail is being reduced to 0, and this is what we have. Where we go from there will depend on a number of other scenarios, but selling for 0 is not in the card. I also would like to highlight that Russia becomes quite marginal in our numbers. One of the reason why we grow in "only" to €10 billion in net profit is because we absorb the entire contribution for Russia during the period. So we are assuming that the contribution will trend to 0 by '27.

Stefano Porro

So in relation to the capital impact of the Commerzbank stake is the overall exposure is currently impacting the capital of around 10 basis points. If we will move from an equity position, so with shares from 9 to 29 as highlighted by Andrea, during the course of '25, in such a case, the impact will be around 30 basis points of common equity tier 1 ratio, so well within the capital buffer that we have.

In relation to the DTA, so we have in-balance sheet DTA in relation to Italian perimeter for €4 billion. There is nothing more that we can recognize in Italy. That means that from this moment onwards, it's not a P&L topic. It's a capital topic.

So when we will utilize these DTAs, we will generate capital. By when we will do that? We will do that in the course of the next 6 years, which is the overall capital benefit from this is around 140 basis points of capital.

In relation to the off-balance sheet DTAs that we can further writing up is around €400 million pertaining to the Austrian perimeter. And we might do the writeup, let's say, already during the course of '25, provided that the profitability will bring us to such a conclusion.

Operator

The next question is from Antonio Reale of Bank of America.

Antonio Reale

It's Antonio from Bank of America. I have 2 questions, please. One on strategy and one on your mid-term profit aspirations. On the first question, since you've joined UniCredit, you've launched a number of initiatives to grow back into your product factories. We've seen it in payments, life insurance and a number of others. So I've seen increasingly this trend in Italy. There's been, I think, a shift in focus and attention towards preserving Italian savings.

And you've often talked about UniCredit when it comes to asset management being a distributor of AUM products rather than a manufacturer. So I wonder if your strategy or vision about this with respect to asset management, in particular, has changed in any way? That's my first question.

Maybe I can complement that or you can complement the answer by also sharing your views on insurance and why you've decided to cross the 5% stake in Generali ahead of their Board renewal in May.

And you've partly answered the second question, which is around your profit aspirations. I think you have clear stand-alone targets, and people will give you credit on delivery. You talked about your vision for UniCredit to become the Bank of Europe's future, which is a project that's taking shape as we speak it's becoming more and more tangible at least versus when you first talked about it.

So my question is why not put a number on this vision and aspire to more than the €10 billion? That's my second question. I'll stop here.

Andrea Orcel

I like the try on the more than €10 billion. So Antonio, let me start with the last one. If -- as I'm sure you have, if you did the numbers on the inertial impact, that we all tend to minimize of rich normalization, cost of risk increase, impact from inflation on cost on European banks, I think you would agree that the number is quite large.

So for us, to add to that the additional compression to 0 of Russia and tell you that by '27 we are adding €700 million is, I would say, ambitious and realistic. That does not mean we can't do better, but it does mean that, at this point in time, based on all the uncertainty and the scenarios that we have, we put on the table what believe we can do and then we review if the scenarios improved.

Not every bank scenario is as, let's say, demanding as ours in terms of the macro evolution. We believe it will have a very important impact. But what I believe we're not wrong is that whatever the scenario will be, we will do better. I am absolutely confident and determined to do that because of the strengths of the organization, of the reengineering of the organization, of lines of defense, of the clarity and granularity of each single action that every bank, every division, every person has and is executing.

So I cannot control the environment. But on parity of environment, I am absolutely confident we will do better than everybody else. So for the time being, €10 billion stays because my best view of the macro environment is one that is quite conservative, and we will operate within that.

With respect to -- and then, obviously, if we do M&A, the number moves. But for the time being, let's keep it there. If we do strategy since -- on the factories and savings, et cetera. Firstly, there is an important question out there that some of you or in particularly one person keeps on raising is whether the Danish compromise square is going to have a life or not.

I remind everybody that for the time being, it's somewhere in purgatory, it hasn't been confirmed, okay? So as I said at the beginning of a plan, I did not believe into internalizing certain areas of insurance. But if a Danish compromise was going to be passed, we would. It was, we are.

Let's see if a Danish compromise square is passed, and then let's review the position. That's number one. Number two, there is a big difference between what we're doing in insurance and what we would be doing in asset management. In insurance, we're processing unit linked and quite standardized and simple products for banks. In asset management, we do not believe we have the scale across products to compete with the leaders in the segment.

I don't believe many people have. That does not mean we cannot have some, let's say, focused niches where we do internalize in full. We have that in our asset management company, primarily for Central and Eastern Europe, but now extensively more for the group in Croatia.

We do have that in our project with Azimut. If you look at our capability to drive, differentiate on our brand, we've won markets, it speaks by itself. If we were to do an acquisition in Italy and that acquisition came with a factory in asset management, which is quite focused on certain standardized, simpler products that work well in Italy, that would complement that element of internalization.

But by and large, if you look at the totality of our masses, the ability to have our own asset manager in-house for everything, I don't think is realistic. Honestly, I don't think it's realistic for any bank in Italy at least.

So that, I think, is that. So I think it's a question of degrees. And I would also say that the control, if you want to call it this way, of savings remaining in Italy can be done if the distributor has a very strong position in all the contracts and in all the partnership and in all the way, it allocates those funds. This is what we have today, and therefore, I'm not concerned about that.

Why cross 5% of Generali? I could tell you why not, but it's also -- I highlight. We do not only hold what we hold. As UniCredit, we also hold what our clients want to hold. And as a result of all the speculation, our clients are quite active.

So I'm just telling you, together with our clients, we've crossed 5%. I mean, if you look at the magnitude of it, we've already spent a lot of time on it. The -- but what is important is that is not industrial. That is not aiming to buy or otherwise engage or whatever. It is a financial stake. It is in our investment portfolio.

Because we bought it over several months, we have a significant capital gain. Part of it is hedged, as always. We -- they are a partner in Central and Eastern Europe and in other areas. And it is something that at this point in time makes sense. And for those of you, as I repeated that know me by now, we will not engage in adventures. We will engage in value creation, industrial projects and creating value for shareholders. And that should frame all the question on Generali.

Operator

The next question is from Delphine Lee of JPMorgan.

Delphine Lee

My first question is on Banco BPM. I just wanted to have a bit of an update of where you are in terms of your discussions? Would you expect coming back from the Italian government and how are your discussions progressing with CredAg.

And then my second question is on your sort of net profit guidance and outlook, '25 and outer years. Just wondering if you wouldn't mind giving us a bit more color around net interest income within that and how much exactly headwind you have in mind, specifically also for '25, if you could clarify a comment around the moderate decline.

Andrea Orcel

So on BPM, I think we are in the middle of a transaction or of an offer. And therefore, we are limited on what we can share. The transaction has -- or the offer has a time line. We are in the phase where we need to obtain authorization from regulators, from antitrust, golden power, et cetera. And therefore, we are in a situation of hold.

There is nothing out of the ordinary into that process, and we are continuing along the time line. We have already set an indication for a potential EGM. It may move forward, backwards depending on the time to obtain those authorization.

At the time being, it's our best guess. I -- personally, I think that the government or the leadership of the government was quite clear that they respect market and they respect -- they let it work, and that is what is happening at the moment.

With respect to discussion with any non-shareholders, I remind you that we are in an offer, so we need to observe -- we can talk to them, but we need to observe pari-passu and treat them all the same.

Credit Agricole is a partner of ours in asset management. It's a partner of ours in custody. It is a partner of ours in a number of places. We have talked to them and that is the extent for the time being. So as we get closer to the offer, maybe, there will be more discussion.

But at this time, that is what it is. With respect to net profit, and then I'll pass to Stefan on NII in general, but, look, I think there are a lot of moving parts. In my opinion, if you go from an average Euribor of 3.6% and you dropped to 2.3% or could even drop to 2% or could even drop to 1.8%, for people to say that it will not have an impact on -- a material impact on your NII, particularly in countries where the pass-through has been low, is not realistic.

We believe we will have most of our impact in NII will be concentrated in Italy. Hence, our attention to what people say because I do think that if Italy has a very low pass-through and benefit on the way up, just mathematically, it's going to be affected on the way down, okay?

Other countries, take, for example, Germany and Austria have a pass-through all already in the 50s because they're, one, is mostly a corporate bank, et cetera. Obviously, they're going to be affected by the declining rate to a much lesser extent because they will manage the margin.

And Central and Eastern Europe will grow. So in our profile, if I were to tell you about NII, Italy gets hit. The rest of the group supports and offset parts of that hit. And obviously, Stefan will look at that.

But there is another thing that we're doing or we have been doing. I don't think people have picked that up enough is over the last 3, 4 years, when we say that our NII RoAC is highest profitability, it also means that we have cleaned up our underperforming exposures in terms of profitability.

That means we don't need to clean them up again. That means that when you look at our growth of NII in the last 3, 4 years, it is net of the cleanup we did in our tank of past exposures, but were below the cost of equity. When we say that we grow with discipline, it means we are constraining growth because we only grow when it's above the cost of equity.

So going forward, we will have some tailwinds from being in the right segments, in the right products, take consumer finance over mortgages and having completed this cleanup. Even so, we think it's going to have a very meaningful impact, which we're trying to compensate through fees, through cost, through cost of risk and then the balance below the line.

But I'll leave it to Stefano go in detail on NII.

Stefano Porro

So let's start from the assumptions. So rates, average Euribor '24 was 3.6%; '25, we're assuming 2.3%. So it's more than 100 basis point reduction. Our net interest income sensitivity is around €300 million for impact to revenues for every 50 basis points, okay? So following the simple movement of the rates, we should have that impact.

Then we have Russia. So we keep on reducing the exposure to Russia. But there is also an assumption in relation to the rate reduction in Russia. So we're expecting that the net interest income contribution from Russia to the group will be few hundreds million less in terms of net interest income.

Then we have spreads and volumes. On the loan spread side, we are expecting to have an higher client spread, similar to what happened during the course of '24. This will happen also during the course of '25.

Every basis point better is around €40 million better from net interest income standpoint. So this will be a mitigating factor. Volume-wise, as I was commenting before, we are expecting more loans, right? So this will also be a positive impact, whose effect will be more in '26 rather than '25.

On the deposit side, the deposit pass-through will remain substantially flat. Clearly, the client rate will go down but as happened during the course of Q4, you saw that deposit volume went up. So we are also expecting that deposits will grow.

So all in all, this will counter mitigate the effect they are having from the reduction of the markdown on the deposit. Finally, there is the replicating portfolio, the replicating portfolio contribution, so the hedging on the deposit was more than €450 million positive in '24. We are expecting that in '25, the contribution will not be meaningful. But if you look at the period '25, '27, the contribution to the net interest income will be positive, and it will be around €300 million.

Last but not least, there is the change of perimeter. Watch out, the change of the perimeter because there is Alpha Romania. So Alpha Romania contributed for only €30 million to the net interest income of Q4, while the contribution for the full year will be clearly more than €100 million to the net interest income of the group.

Operator

The next question is from Ignacio Ulargui of BNP Paribas Exane.

Ignacio Ulargui

I just have one question on credit quality. If you could elaborate a bit on how do you see the credit quality evolving in your 3 key core markets and whether there is any sign of deterioration? How much of that partial usage of overlays would be beyond '25?

And the second question, I mean, just looking to your cost-to-income ratio going forward, and then you have done an excellent job in terms of cost-to-income, how much lower can it go? I mean, do you think that the 30% is around the bottom? Or we could see further improvements on cost-to-income ratio?

Andrea Orcel

So let me start with the cost side. So obviously, the cost-income ratio has 2 elements and in my revenues are compressing. There is a limit to where we can go. So we have set a target of 40%. 40% for '25, 40% for the plan that we have in the next 3 years. I remind you, we had 50% last time around when we did the first phase of UniCredit Unlocked. So to do 40% in a, let's say, more challenging top line environment, it means we need to continue improving cost. And we need to continue improving cost in an inflationary environment.

So this is what we discussed at the beginning. Now is the time that we were waiting for everybody to cross because we have revenue being compressed and cost being driven up by inflation. And the jaws are coming together.

On revenue, we'll discuss separately or we have on cost, partially be taking more than €3.5 billion of extraordinary charges in the last 3 years. We have prepared ourselves to be able to absorb the inflation and maybe grind slightly lower on similar perimeter, which means the enlarged perimeter at the moment with Romania, with Vodeno, with all of these is about €9.6 billion.

We are aiming to hold, and that means absorbing all the inflation, the renegotiation of contract and everything else that is within that. So not an easy one. And for us, the cost of holding has already been taken. So it's not going to be below the line in the following years or it's going to be to a much lesser degree.

So on that position, we think we are in a better position than almost anyone. With respect to the revenue line, obviously, we have all the offset that we have discussed, difficult in '25 because the compression of rates have an impact on our revenue concentrated in '25, then it loosens as we go through growth in '26 and '27.

And the fees continue to grow into '25, '26, '27. So the revenue line will become more of an advantage once we trough in 2025. So 2025 is the difficult time. On asset quality, what I would say is, while we're cautious because I've never seen a cycle where cost of risk does not go up. At the moment, we don't have significant indication of worsening. Yes, we have a fall here and a fall there. But when I look at the numbers, they're really quite minor.

I remind you that we had the first 3 quarters with a cost of risk almost in the single digits. And we, again, were conserving by, let's pay -- let's say, being over conservative in the force by creating specific provisions, we couldn't build more our overlays to make sure that whatever happens in the next 3 years, we are prepared. And therefore, the cost of risk of the last quarter is up, but it's not up because, Oh, my God, the asset quality is degenerating. It's up because of one position, but most importantly, because we are further strengthening our provisions.

And so in '25, it depends the use of overlays, it depends what you assume. If you assume that the cost of risk jumps for the industry or for us, 25, 30, 35, then you can calculate how much overlays we're going to release on top. if you don't assume that, then we're not going to use any overlays. But the overlays are there to be used.

And I remind everybody in doing your numbers, if -- as we are expecting the cost of risk trends up materially, they will be used to keep it below 25 -- 20 to 25 basis points. Actually, now, we assume even lower because we've given you 15.

If the cost of risk does not increase, as many people -- some people are assuming, then the overlays are going to be released over the next 3 years. And we are going to become a net propeller of our bottom line as we get released. We can't keep them there forever.

Stefano Porro

So I can give you some data points more, just to add. So if you look 2024, the cost of risk of the group was 15. Then if you look the different countries, we were at around 30 basis points in Italy, 20 in Germany. Austria was single digit, was 7. But Central Europe was having a negative cost of risk for -- I mean, Eastern Europe, specifically for around minus 5.

Why? Because we had a lot of write-backs. The situation will change, right? Because while we will see very likely a similar cost of risk for Italy probably something less for Germany, in the case of Eastern Europe, we will go back to normal, right? So we will go back to a positive cost of risk.

Commenting on the default rates. So as highlighted by Andrea, in '24, the default rate of the group portfolio was 1.3%. But then if we're adjusting for a few big tickets, the overall portfolio had a default rate of 1%. That was fundamentally the same that we experienced in '22 and in '23.

So fundamentally, there is stability in relation to that. And in '24, both Germany and Austria, just for these few big tickets were below 1%. So we were respectively 0.7% and 0.9%.

So what we are currently assuming for the future is, let's say, a trend of the default rate that will not be significantly different from what we had in 2024. Slightly worse, but not meaningfully worse than this.

Operator

The next question is from Giovanni Razzoli of Deutsche Bank.

Giovanni Razzoli

I have 2 questions. The first one is on your profitability target. You have increased the bar, targeting a return on tangible equity that is now above 17%. Shall I take this that this new level of profitability also as a bar for the threshold to proceed with M&A?

Because if I'm not mistaken, to my memory, you said in the past that you never have executed any deal with a return on investment capital below 15%. So I'm wondering whether with increased profitability on a stand-alone basis, this 15% has now increased to 17%.

And the second question is on your Generali investment. Clearly, this is a financial investment, but you are now one of the 4 largest shareholder of the group. And as such, I would like to share -- if you can share with us your views on the recently announced deal that Generali and with [Natixis], what are your views there? Are you supporting it? Or do you see some risk on that?

Andrea Orcel

So profitability and M&A, what we said is that, number one, M&A needs to compare favorably with buying back our own shares and which, by the way, at this point in time, we're buying back at a premium to book, not at book.

And secondly, we've often mentioned a return on investment of 15%. We also said that it's rate dependent, and it's country-dependent. But on average, it is correct. What do I mean by that? I mean that if rates go to -- if rates were at 4% and now they are 2%, I need to also not be unrealistic. But as of now, I would say that our commitment that if you do your projection on, I don't know, buying back x billions of our shares at current market prices versus M&A, we should be -- the -- I should be able to argue to you that M&A is better or not do it at all.

I think it's the easiest way because [Natixis] Capital and myself are going to go in 1 of 2 directions, buy back my shares or buy the shares of another bank and bring in their earnings. If that does not compare favorably, I shouldn't be doing it, okay?

Then we can discuss whether it is immediately on the year 1 or within the first 1.5 to 2 years, but that is the point. So that will not change. And it is our bar, and this is what we committed to investors, and we're not changing.

On Generali, I know everybody makes a big deal out of it. I am not going to comment on a deal of another company. Let's say that, at this point in time, we are -- we made an investment. We know it has significance, but we are so focused on executing our Q1 and the 2 transactions that potentially are on the table that we don't spend much time on that. At the appropriate time, we'll make a decision.

Operator

The next question is from Hugo Cruz of KBW.

Hugo Cruz

Just a question on NII sensitivity. Your sensitivity is for a parallel shift, it's more likely that you will see the short end come down but the middle and long end of the curve stay where they are. How would that scenario change your stated sensitivity?

Stefano Porro

Let's say, there is not a meaningful impact in case of a scenario in which there will be an impact also on the long-term part of the growth. As you have highlighted, the net interest sensitivity is calculated based on parallel shift, so plus 50. Do consider that the main impact that they're having from the long part of the curve in our case is connected to the rolling of the replicating portfolios.

We have a stock of €176 billion of hedging to the deposit and consider that every year, we are rolling between, let's say, €18 million and €20 billion. That is that you can derive, which is the sensitivity to the long-term part of the curve because when we do the rolling, we are hitting the long-term part of the curve.

So 10 basis points, you multiply 10 basis points by €20 billion. So this is the impact that they're having, for example, for a reduction of 10 basis points in the long-term part of the curve.

Operator

The next question is from Ignacio Cerezo of UBS.

Ignacio Cerezo

The first one is on Commerzbank, asking you, if you have changed your mind about not going hostile on Commerzbank at any stage in the process? And given the recent language from both government and the company, what makes you think that they might be more open to negotiate at some point in the future? And the second question is more detail basically on the quarter, if you can break down the 15 basis points CET1 impact from the strategic investments in the fourth quarter?

Andrea Orcel

Okay. So on Commerzbank, our position is unchanged. So we made the investment, we bought the shares from the government. We announced we would move to 29% or below 30% and ask authorization. We did that.

When the position was made that we were not welcome, we said we would wait to engage with the government, and that is what we're doing. I don't have a position optimistic. However, I have a position of I do think the deal makes sense for all involved, and we will be waiting to present that position at the appropriate time in the future, and that is it.

We are -- I personally, I'm optimistic that with fact in figures, it will be recognized. But for the time being, that's where we are. As we are where we are, and we have a stake, number one, as a shareholder, I am satisfied at the fact that the company is now shaking up things and trying to have a new plan and progress further. That's always positive. And hopefully that, that drives an improvement in their structural profitability, core structural profitability.

And we can observe that over the time that is needed to talk to all interested party and see where we land. But that's not changed. So we are where we are. We'll see at the end of that what will happen, but I'm optimistic that with constructive conversation, you get to a positive outcome.

Stefano Porro

So in relation to the strategic investment impact of 15 basis points, is mainly deriving from the inclusion in the perimeter of Alpha Romania. So considering that the contribution is around €3 billion of loans, risk-weighted asset wise is €2.4 billion. So is explaining to you is around, let's say, 13, 14 basis points out of the 15. So it's a change of perimeter in relation to Romania.

Operator

The next question is from Chris Hallam of Goldman Sachs.

Chris Hallam

Just 2 quick questions left for me. On distribution, the €3.6 billion buyback in H2, does that approval process change at all? I guess, when you speak to ECB and present the capital plan for approval, there may be a change in perimeter and elevated operating and integration risks associated with that perimeter change. So how should we think about the risks or complexities of getting that €3.6 billion approved and executed in H2?

And then secondly, on the €2 billion advisory and financing business, how do you see the growth outlook for that business in particular in 2025, maybe in the context of sort of ongoing trade and political uncertainty impacting businesses across the markets?

Andrea Orcel

So the distribution, no, the processes are independent. I don't think that the potential acquisition of BPM affects the authorization on the share buyback, which is ongoing and exactly as all the others. The execution is not in fact affected by the ECB or regulators. It's affected by the correct orderly market -- maintenance of orderly market, which comes of the -- expects and buying back your own shares, while your shares are being offered for a transaction. It is not something that should be done.

So depending on all the authorization, et cetera, we will execute the share buyback just after the transaction. If for any reason the transaction is delayed, we will execute as much of a share buyback that we can before the transaction is launched. So that -- and we remain committed to getting it done as quickly as possible. It's just a question that we will have a period within which we can't execute.

Stefano Porro

Yes. on the advisory and financing fee growth rate, it's not different from the other categories when we're looking above '27 versus '24 and '25 versus '24. However, when we're looking to 2025, especially in relation to the German related activity is worthwhile to highlight the expectation.

So the pipeline is not bad, but clearly, there is uncertainty also connected to election and to the overall evolution of the economy. So all in all, apart from consideration related to the market volatility -- to the financial market volatility, we are expecting acceleration of the growth in the second part of the year.

Operator

Gentlemen, there are no more questions registered at this time. Back to you for any closing remarks you may have.

Andrea Orcel

Thank you, everyone, for your patience, and we'll see many of you during the road show. Thank you.

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